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BUSINESS CONDITIONS & FORECASTS

A M A News Letter

AMERICAN MANAGEMENT ASSOCIATION, 330 WEST 42nd ST., NEW YORK, N. Y. . . . AUGUST 23, 1938

SEP 6 1938

The President's Scratch-Pad

§ Reports from men of sound judgment, who are given only to careful and realistic analyses, indicate that while there has been some definite improvement in demand and production in the consumer goods industries so far in 1938, the most important change for the better is in business morale.

§ As George A. Sloan, chairman of the Consumers' Goods Industries Committee, points out, as a result of a survey of opinion in a number of key trade groups: "There seems to be an eagerness on the part of business to find a justification for renewed confidence and to discern the signs for the way up and out. However, the reports also show the delicacy of the situation as it still exists. A situation of this kind feeds on encouragement. By and large the reports present evidence of hope and expectation rather than any material realization. This, and expectation of betterment, is an essential to actual improvement. It must be preserved."

§ Mr. Sloan's choice of the word "delicate" is apt, since it neatly connotes the even balance of buoyant and depressing forces that dominate the business scene.

§ Manifestly this situation is transitory for one of the two forces will ultimately prevail. There is better than 90 per cent agreement among professional forecasters, economists and business men that the fourth quarter of 1938 will be a period of brisk and rising business. Decreased inventories and capitalizations, shaken out weak financial setups and unprofitable plants, reduced indebtedness, and many other factors favor extension of the current upturn. Short term calculations indicate that recovery will extend well into the Spring of 1939. There is little upon which to base predictions for the long pull after that time, and the best that can be said in that regard is that there are still large shortages to be made up in building, utilities and railroads.

Alvin E. Dodd

Better Personnel Procedures on Increase

Discharge Reprint Widely Distributed

Labor Board Getting Court Reverses

One of the notable developments in the field of personnel administration in recent years has been the increase of orderly procedure in matters of selection of employees, their compensation, promotion, training, dismissal, etc. The exigencies of the times have brought sharper scrutiny of personnel practices and have created a strong demand for efficiency in personnel departments.

Orderly procedures, accurate record keeping, and general alert administration have become the requisites for good industrial relations.

Discharges: In the June issue of the NEWS LETTER announcement was made of a reprint which suggested some guides for discharging men without incurring charges that they were dismissed for union activity. It is significant that many thousands of these reprints were distributed in a few days and that a new edition had to be printed. This, however, cannot legitimately be construed as meaning that wholesale layoffs are in prospect. Many companies that ordered large quantities of the reprints stated that they simply wanted to distribute them among their supervisors, executives and all other persons who have anything to do with discharging men, so that they would be prepared in case there was need for layoffs.

Employee Reports: The outcropping all over the country of company reports for employees has been an amazing phenomenon. In the rush to imitate what other companies were doing, many companies issued reports that were badly thought out and carelessly presented. In his article in the August number of PERSONNEL, Frank Rising, *Business Week's* labor editor, gives some pointers on issuing such reports. Mr. Rising has stated that many such reports were regarded as suc-

(Continued last page)

UNIVERSITY OF WASHINGTON
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BUSINESS OUTLOOK

Most Indexes Pointing Upward

Orderly Recovery in Prospect

Most statistical agencies and individual observers agree that there has been a distinct betterment in general business conditions in the past month. Examination of the summaries on the inside pages of this LETTER discloses a decided upward trend in most indexes, notably consumer goods, steel, automobiles, and residential building.

It is believed that the basis for any recovery that has been thus far achieved has been the exhaustion of stocks, consumption having been sustained for many months past by consumer incomes which were high in relation to production. The current appearance of many basic improvements and a more hopeful outlook for the increase of capital investment, which will stimulate the capital goods industries, are building up highly optimistic expectations for the immediate Fall outlook. The permanence of the recovery depends, of course, on many factors. One agency, appraising the upturn, declares: "It seems fairly logical to expect the rising trend to carry at least through the first half of 1939 if no unusual developments interfere in the interim."

In some quarters current opinion is apprehensive of an over-rapid recovery that might quickly burn itself out. In 1936-1937 an excessively rapid upturn sent prices into an upward spiral, and over-optimism caused overbuying, with the result that the recovery turned into a recession which was unequalled for its steepness.

It is likely, however, that business will approach the present upturn with a great deal more caution than it did the earlier recovery. While all businesses are anxious for more activity they are not so famished for it as they were in 1936. The conclusion may be reached that any new recovery will be slower, more orderly, and probably more lasting than the one which collapsed more than a year ago.

BUSINESS CONDITIONS & FORECASTS

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	Alexander Hamilton Institute	Babson Statistical Organization	Brookmire, Inc.	Business
General Outlook	Though the national income was 26.8% smaller in June than in the same month last year, it registered a slight gain over May; a further rise is indicated for July, and the outlook is that the national income will continue to expand (August 6).	A recent improvement in the records of business failures indicates that today's upward movement is not a mere rally but a sustained revival; gains in industrial earnings and volume may be expected during the coming months (August 15).	Factory chimneys are again belching smoke in the key industrial centers of the country, thus indicating inception of another business revival; expansive economic forces and Government stimulus are combining to promote recovery (August 6).	In some fields it has been noticed, but still under way; direction still seen in the present revival through for some time (20).
Money and Credit		Inflationary forces are again in the saddle; if the self-financing activities of Federal agencies are permitted to expand, the groundwork will be laid for inflation on an even more gigantic scale (August 1-15).	Money rates are likely to remain very low; though deposits in Federal Reserve member banks are turning over sluggishly, they have potentialities of promoting a turnover of goods several times the size of that now prevailing (August 6-10).	Activity in the recently been the quarter of 1937; are required to pay rates than 3 1/2% able to borrow at 20).
Security Markets	The stock market appears in a rather even balance; on the unfavorable side is the appearance of what may turn into a clearly defined top, though the present price zone may prove to be a trading area with a lateral price trend (August 18).	Security markets continue to display an encouraging tone; indications point to higher levels for stock quotations; though the highest-grade long-term bonds are probably around peak prices, second-grade bonds should show an upward trend (August 15).	Following their meteoric rise in June, security markets scored some further gains in July; though a corrective reaction now appears in progress, stocks are in a long-term uptrend which should continue at least until next spring (August 6-13).	Dividend payments 32.4%; higher dividends, as the record shows, and they will influence on stock
Production	The index of factory output was 75 in June as compared with 114 in the corresponding month last year; preliminary reports indicate that production in July increased slightly; steel output has risen to a 1938 peak of 40.4% of capacity (August 20).	Industrial production generally will tend strongly upward during the remainder of the year; the rate of operations in the steel industry is currently around 40% of capacity, but a 60% rate is not unlikely for the fall (August 1-15).	Although July production of autos and trucks was about 73% less than in July, 1937, the motor industry is capable of materially promoting recovery; volume output is likely to be attained later in the third quarter of the year (August 6).	Recent figures are mixed but give electric power picture since the a considerable gain is likely to be made weeks (August 20).
Distribution	Retail sales in Chicago, St. Louis, Los Angeles, and several other cities display encouraging signs of improvement; New York business men look forward to a good fall trade (August 20).	Sales have taken a definite turn for the better; wholesale sales in June were 2% higher than in May; though department store sales in July dropped 9.8% below July, 1937, in New York City, the decline was largely due to inclement weather (August 8-15).	Fundamental conditions favor expansion of retail trade, which is now running well in excess of new production; consumers' purchasing power in 1938 seems likely to fall no more than 12% from last year's level (August 10).	Though retail sales somewhat since carried far enough the 10%-12% decline which are being seen the 16% decline (August 20).
Building	Although building contracts showed a moderate rise in June to the largest volume this year, it is doubtful whether the expansion will be greatly extended in view of declining rents and other unfavorable fundamental conditions (August 6).	Although recent construction statistics have been less favorable than anticipated, total volume for the year should exceed \$2,500,000,000, about 10% below 1937; residential building is now in a position to supply the vital backbone to recovery (August 8-15).	The residential building revival, which has already shown splendid vitality, is likely to impart a substantial impetus to the recovery movement during the remainder of 1938 (August 13).	Residential building in July were 8% 1937; factory output down by more than 10% level, and other by more than 20%
Agriculture	The price level of farm products in June was unchanged from May, while the quantity of farm products marketed showed a gain of 14.7% over last year's volume; unless further inflation occurs, farm income is likely to decrease in 1939 (August 13-20).	The Babson Agricultural Price Index firmed slightly to 100.5 on July 23, compared with 99.8 last month and 128.2 a year ago; bountiful crops are likely, and farm product prices may be supported by Government payments and monetary factors (August 15).		Crop price-fixing legislation are the next Congress because of farm price drop seems near a turnabout is likely
Commodity Prices	The weakness in commodity prices has engendered skepticism as to the possibility of any dynamic recovery while it persists; however, the declining commodity price trend alone need not affect the recovery outlook (August 18).	The Babson Industrial Price Index rose to 135.4 on July 29, against 133.9 a month ago and 155.9 last year; leading indexes of wholesale commodity prices should push higher in the months ahead (August 15).	The commodity price index moved upward in July; although prices of farm products have remained weak, indications are that commodities in general will continue their rise (August 6-13).	Farm product prices comeback; rubber, industrial raw materials their recent tops markets should continue 20).
Labor and Wages	The number of persons unemployed in the United States in June totaled 13,957,000, compared with 8,843,000 last September; the index of factory payrolls declined from 69.2 in May to 67.0 in June, a new low for the current recession (August 13-20).	July figures from various manufacturing centers reflect a slow return of workers to their jobs; wage rates have hit bottom, and pressure for upward revision of wages is becoming stronger; 84 strikes occurred in June, 81 in July (August 15).		Employment in the textile industry, which lowest level, has big companies reversion of new models
Foreign Trade and Conditions	The political situation in Europe indicates that a new crisis may arise over Czechoslovakia in the near future; security markets throughout the world are nervous, and a general declining tendency is apparent (August 20).	Some foreign currencies continue to reflect unfavorable conditions abroad; the United States' recovery movement, however, is vigorous enough to overcome any downward pull from outside sources (August 15).	The willingness of Japan and Russia to arbitrate their recent dispute appears to remove the danger in this powder keg for the time being; in Europe, the German minority question in Czechoslovakia still awaits solution (August 13).	The business overcast; in England fallen, and the deepening; European the Russo-Japanese German impasse 20).

This digest covers the views of various authorities. It does not include any strictly confidential information or specific advices from the sources.

... AUGUST, 1938

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Business Week	Dun's Review	Cleveland Trust Company	National City Bank
<p>some fields of business a letdown has noticed, but elsewhere progress is under way; taken as a whole, the situation still seems to be forward, and present revival movement should carry high for some months more (August 20).</p>	<p>Although early August reports show a lull in the stock market and cautious wholesale buying, the optimistic business sentiment which continues to prevail seems to be confirmed by advances in industrial activity and in trade volume (September).</p>	<p>It seems probable that the bottom of this renewed depression was reached in June; general business activity improved in July, and most of the gains have been well held, and some of them increased, thus far in August (August 15).</p>	<p>The feeling has grown that the worst has been seen and that the country is headed for some measure of recovery; the expectation of further improvement in business conditions appears to be warranted (August).</p>
<p>activity in the new capital market has lately been the greatest since the second quarter of 1937; few industrial borrowers required to pay higher annual interest than 3½%, and some have been able to borrow at less than 3% (August 20).</p>	<p>Bank clearings, 22 U. S. cities, July, \$21,624,276,000, 9.7% below June, 16.9% below a year ago; Adjusted Insolvency Index (Failures) July, 61.6, compared with 64.0 in June and 40.0 a year ago (September).</p>	<p>All recovery periods have been marked by increased borrowings from banks, but this time such advances have not as yet taken place; the total volume of loans of Federal Reserve member banks declined about 50% between 1929 and 1937 (August 15).</p>	<p>Money rates during July remained little changed; excess reserves in Federal Reserve member banks continued to pile up, and are expected to remain at abnormally high levels; on July 20 ordinary demand deposits reached a new high since mid-1937 (August).</p>
<p>dividend payments in July dropped 10%; higher dividends are likely, however, as the recovery movement progresses and they will exert a stabilizing influence on stock prices (August 20).</p>	<p>The change in trading sentiment, which has been in evidence since June, was borne out by the July volume of transactions; July volume exceeded June by 38%, and topped July, 1937, by 18,000,000 shares or 87% (September).</p>	<p>Last January the volume of industrial production was 38.7% below normal; in February the percentage below normal was 39.7, March 39.8, April 41.4, May 42.2, and June 41.5; the preliminary figure for July is 39.4% below the computed normal level (August 15).</p>	<p>Refusing to conform to the popular expectation of reaction, the stock market moved into new high ground in July; Government securities closed the month with a steady tone, and lower grade rails displayed strength and activity (August).</p>
<p>percent figures for productive activity mixed but give no grounds for alarm; electric power production is at the best since the opening week of 1938; considerable gain in automobile output likely to be made within the next six weeks (August 20).</p>	<p>A contra-seasonal increase in manufacturing activity for July raised preliminary estimates of the Federal Reserve Board's index of production to 81 from 77 in June (September).</p>	<p>Inventories are being steadily reduced, but they are still large, and almost as great as those of 1929 at the end of the last prosperity period (August 15).</p>	<p>Steel production rose by the latter part of July to 37% of capacity, and further advances are predicted; the auto industry has been turning in a better summer performance than had been looked for; output of textile mills is increasing (August).</p>
<p>though retail sales have slowed down somewhat since midsummer, this has not been far enough to be really disturbing; 10%-12% declines from a year ago are being shown remain better than 16% decline registered in May (August 20).</p>	<p>The seasonally adjusted U. S. Trade Barometer rose to 75.9 in July from 74.8 in June; the July figure shows a 20% decrease from that of July, 1937, which was 96.2 (September).</p>	<p>The volume of new building construction remains disappointingly low; probably most estimates of our annual needs for new residences are too high, and it is also probably true that we have no pressing need for more public buildings (August 15).</p>	<p>Department store sales for the first two weeks of July were 6% and 8%, respectively, under those of the corresponding period in 1937, compared with losses of 13%-19% during May and early June; retail inventories have measurably diminished (August).</p>
<p>residential building contracts awarded July were 8% above those of July, 1937; factory construction, however, was down by more than 80% from last year's level, and other non-residential building more than 20% (August 20).</p>	<p>Building permits (Dun & Bradstreet), 215 cities, for July were 61% more than in June, 54% above last July; FHA reported that the volume of home mortgages selected for appraisal in July showed a 100% increase over July, 1937 (September).</p>	<p>Though prices of farm products will be lower this year than in 1937, the prospect of one of the largest agricultural harvests in our history constitutes a most favorable factor in the economic outlook (August 15).</p>	<p>The value of construction contracts awarded during the first half of July was 32% below that of July, 1937; residential contract awards, however, are nearly level with those of a year ago (August).</p>
<p>top price-fixing and export subsidy legislation are sure to come before the Congress because of the sharp deflation of farm prices; the agricultural price seems near its end, and an important about is likely (August 20).</p>	<p>Dun & Bradstreet's Daily Commodity Price Index remained fairly stable during most of July but declined during the first part of August almost to the year's low, the level on August 12 being about 35% below the 1937 peak (September).</p>		<p>Farmers' cash income for the first half of this year was 12% below that of a year ago; it is estimated that the 1938 wheat crop will be the second largest on record, and the wheat carryover for next year is likely to be substantially increased (August).</p>
<p>farm product prices have made a modest comeback; rubber, hides, metals and other industrial raw materials remain close to recent tops; industrial commodity prices should continue their rise (August 20).</p>	<p>Increased activity in steel and consumer goods industries led to a substantial increase in factory employment during July; NICB reported weekly earnings in 25 industries up 39 cents in June due to an increased average working week (September).</p>	<p>The most threatening element in the present situation is the danger of another great war in the Orient (August 15).</p>	<p>The firmer prices and the spirited character of the buying in numerous commodity lines have been impressive; wool prices are higher, and silks, rayon, hides and leather are stronger and more active (August).</p>
<p>employment in the bellwether automobile industry, which was recently at its lowest level, has begun to climb as the companies recall workers for production of new models (August 20).</p>			<p>A more favorable trend in employment is now evident; steel companies apparently do not intend to cut wages at present, though steel wage rates are 28% above those of 1929 and most of the companies are in the "red" (August).</p>
<p>the business outlook abroad is still bleak; in England stock prices have fallen, and the domestic depression is deepening; Europe's markets have accepted the Russo-Japanese truce and the Czechman impasse as mere respites (August 20).</p>			<p>While the value of both our exports and general imports was smaller in June than in either May, 1938, or June, 1937, the trade balance was approximately \$87,000,000 in our favor, compared with \$21,000,000 against us in June last year (August).</p>

Plans Completed for Office Management Conference

Large Attendance Indicated For Important Meeting On Office Problems

Final arrangements for the forthcoming Office Management Conference have now been concluded, according to C. L. Stivers, Vice President of AMA's Office Management Division, and advance interest from office managers in all parts of the country points to a very successful meeting.

The Conference will be held at the Hotel Pennsylvania, New York City, Wednesday and Thursday, October 5 and 6. The printed program was distributed on September 19. All who are contemplating attending are urged to send in the advance registration cards accompanying the program.

A feature of this year's Conference will be the "smoker" scheduled for the last half of Thursday afternoon, October 6. This session will give the audience a greater opportunity than it has had heretofore to participate directly in the program. At that time a group of authorities under the chairmanship of Professor Coleman Maze will undertake to answer questions on practically every type of office problem—whether it deal with personnel, equipment or methods. A question-box will be displayed prominently during the two days of the meeting, and printed forms will be provided for handing in written questions. In addition to queries regarding conference papers, questions will be entertained on the following subjects: Organization Principles; Simplification of Office Routines; Improving Letters; Office Manuals; Systems Control; Measurement of Work; Training of Supervisors.

The smoker procedure was followed with outstanding success in a number of AMA conferences last year, and the Office Management Committee was urged by many to include it in this year's Office Management Conference. It will make possible the treatment of highly important subjects which the Committee, because of the wealth of suggestions received, could not include as formal papers.

BINDERS

Enclosed with this issue of the NEWS LETTER is a circular and order blank for binders for AMA publications. A supply of the binders was quickly exhausted last year; members are therefore urged to get their orders in as promptly as possible.

ANNOUNCES PROGRAM



C. L. STIVERS

Production Division Plans N. Y. Meeting In November

Conference Usually Held In Spring

The Production Division of the American Management Association will hold a conference for production executives in New York City this Autumn, according to Raymond S. Perry, Vice President of the Ingersoll Milling Machine Company, and Vice President of the Production Division. The exact date will be announced later, but it will in all likelihood be in mid-November.

The Production Division has traditionally held its Conference in spring—usually in April. The decision to hold the meeting in November was made in order to permit two meetings of the Division during this conference year. Present plans are to schedule a second Production Conference in April if conditions at that time warrant.

Preliminary meetings have already been held by the Planning Committee and tentative topics are under consideration. In the meantime, a letter and questionnaire will be sent to some 300 production executives, and all members receiving this material are urged to return it to AMA headquarters as soon as possible. This information will enable the Committee to include in the program subjects of greatest current value.

Suggestions will also be welcomed from anyone reading this notice. They should be addressed to Carl Heyel, American Management Association, 330 West 42nd Street, New York, N. Y.

Major Urwick Speaks At Institute of Management Meeting

Major Lyndall Urwick, the well known British authority on management organization problems and chairman of Urwick, Orr & Partners, Ltd., London, England, addressed 60 members and guests of the Institute of Management at a dinner meeting that was held on Thursday, September 15, in New York.

Major Urwick, whose writings on the subject of organization are well known to the American management field, spoke on "Scientific Principles and Organization." Harold B. Bergen, of McKinsey, Wellington & Company, President of the Institute of Management, was toastmaster at the dinner.

DISCHARGE PROCEDURE

Many heavy demands have necessitated the reprinting of the pamphlet entitled "Procedure on Discharges," which was mentioned in the last issue of this LETTER. The article suggests a discharge procedure which helps to safeguard against charges that men were dismissed for union activity. A large number of the pamphlets have already been distributed, as many companies have purchased quantities to be given to all persons in their organizations who have anything to do with discharging employees. The price of the pamphlet is 10 cents. When ordering less than 10 copies, members are requested to send stamps.

British Methods (Cont'd)

basis and forbid strikes pending the use of grievance procedure.

Failure of Bargaining: When bargaining fails, the government can set up wage boards to establish minimum hours and pay. The boards are similar to those provided for under the U. S. Wages and Hours Law.

Union Liability: Unions or their officers may not be sued for restraint of trade or for the wrongful acts of their members.

Enforcement of Contracts: There is no provision under the law for the enforcement of contracts.

One does not have to read very far into the report before sensing an atmosphere in British industrial relations which is considerably different from our own. Traditional paternalism and a relative avoidance of retaliatory practices characterize the British system. The report cites certain devices which might be adapted to the American situation, but obviously the British background for these techniques cannot be borrowed.